

# Maori Development Corporation Report

## Chapter 4 - The MDC and Its Operations

### 4.1 - MDC Objectives

Chapter 4

The MDC and Its Operations

As established in the preceding section and in response to the accepted need to correct the economic disparity between Maori and Pakeha, the Crown established two vehicles:

- o The Maori Development Corporation Limited
- o The Poutama Trust

#### 4.1 MDC Objectives

The Maori Development Corporation Limited was established to meet clear objectives:

- o to be fully commercial and focus on the promotion of viable and unsubsidised Maori economic development; (A1:125)
- o to lend at commercial rates and invest in equity in viable commercial Maori business projects; (A1:122) and
- o to provide appropriate development and investment banking services. (A1:159)

In 1987 when the company was formed, the above was engrossed into the company's corporate mission:

Maori Development Corporation's mission is to provide financial resource for the development and enhancement of Maori businesses, Maori assets and the financial and business skills of Maori people. Maori Development Corporation will be the catalyst to grow existing potential resources of Maoridom. [emphasis added]

Maori Development Corporation's resources will include practical financial and advisory services and its business strategies will centre around a team approach to the building and continuing relationships with targeted clients and the delivery of fully competitive and appropriate Development and Investment Banking services. Maori Development Corporation will aim to accrue superior rewards for its client, and to obtain the respect and confidence of Maori

businesses, Maoridom generally and the business community at large.  
[emphasis added]

Maori Development Corporation's financial mission will be to accrue acceptable rewards for the Company, its shareholders and staff. [emphasis added]

Maori Development Corporation's success and development will be closely linked to its ability to "add value" to the financial attributes of its target market thereby ensuring growth in the Maori business community. (A2(a):4)

The intent then, was that the company would provide "development and investment capital banking services". (A2(a):4) It was proposed that the equity capital would be geared up to fund a development bank to operate in a way similar to the Development Finance Corporation of New Zealand Limited. (A1:160)

It may be noted that the corporation was never intended to service small businesses. "Loans and/or equity investments will be for a minimum of \$100,000". (A1:90)

---

*Waitangi Tribunal, Department of Justice, Wellington.*

# Maori Development Corporation Report

## Chapter 4 - The MDC and Its Operations

### 4.2 - The Poutama Trust

#### 4.2 The Poutama Trust

The Crown recognised the need for an altruistic, non-commercial component if the object of encouraging more Maori commercial enterprises was to be achieved. In order

to separate this component from the MDC with its commercial objectives, the Poutama

Trust was established with a grant of \$10 million from the Crown.

The principles, objects and purposes for which the trust was established are:

- (a) To assist in and carry out investigation and assessment of commercial projects or propositions with a view to completing project documentation and seeking financial assistance from the Corporation;
- (b) To assist in the formulation and compilation of applications for financial assistance from the Corporation;
- (c) To manage and oversee commercial projects which have received or are to receive financial assistance from the Corporation
- (d) To provide investigative, management and supervisory assistance to commercial projects financed by institutions other than the Corporation;
- (e) To arrange, develop and assist the study of and the acquisition of, dissemination and application of knowledge and information amongst Maori people involved in commercial projects, assisted by or being considered for assistance by the Trustees;
- (f) To provide assistance in the training and development of expertise by Maori managers in commercial projects assisted by or being considered for assistance by the Trustees. (A25:2-3)

The 1989 Annual Report of the MDC described the Poutama Trust's function as follows:

To assist MDC's business goals, the Poutama Trust was launched by the Government in 1988. The fund seeks to enhance Maori Economic development by identifying and supporting new opportunities in the areas of feasibility

studies, market research, consultancy services, skill upgrading and post-loan management. The cost of such support is generally shared by the Trust and its clients. (A2(a):6)

We note that the Poutama Trust was established to complement the MDC's original mission and is fulfilling a valuable role. It receives a steady stream of applications for assistance to undertake feasibility studies for new and growing Maori enterprises and to provide other help in accordance with its Deed. With regard to feasibility studies, the

Trust operates in much the same way as the Business Development Board's Business Development Investigation Grants. As with the Board, the Trust obtains a contribution

from the applicant of at least 50% of the total cost of the investigation, although this does not seem to be a requirement of the Trust Deed. It is also notable that the Business Development Board does practically no business with Maori, underscoring the Trust's valuable role.

We also note that, as the MDC does not currently provide financial assistance by way of debt finance, the first three objects of the Trust (3.1(a), (b) & (c)) are not being observed. Further, the Trust has not utilised anywhere near its annual income in meeting its objectives.

---

*Waitangi Tribunal, Department of Justice, Wellington.*

# Maori Development Corporation Report

## 4 - The MDC and Its Operations

### 4.3 - MDC Shareholding

#### 4.3 MDC Shareholding

The initial shareholding of the company was such as to facilitate the achievement of its goals:

The Crown \$13.0M  
Maori Trustee \$ 7.0M  
Brierley Investments Ltd \$ 2.0M  
Fletcher Challenge Ltd \$ 2.0M  
Development Finance Corporation of NZ Ltd \$ 2.0M

The Crown's substantial participation would have at that time, provided confidence to the lenders. The involvement of Brierley Investments Ltd and Fletcher Challenge would provide valuable commercial experience and "reputational capital". (A37:38) The Development Finance Corporation was seen to provide valuable experience and expertise in the areas of development and investment banking services. The Crown and the Maori Trustee gave a pan-Maori character to the company.

Initially the commercial shareholders were represented on the board of the MDC by very senior executives and, in the case of the Development Finance Corporation, the chief executive. (A1:161)

The investments made by the Crown, Brierley Investments Ltd and Fletcher Challenge Ltd were not entirely commercial:

... it is not clear that the goal of either the Crown or the Corporates was originally to contribute wealth to the Crown, Brierley Investments Ltd or Fletcher Challenge Ltd. (A37:2)

The shareholding has subsequently changed with the withdrawal of the corporates: DFC, Fletcher Challenge and Brierley Investments.

Following the placing of the DFC under statutory management, its shares were acquired by Stratacorp Financial Services Limited and subsequently purchased by the Poutama Trust. (A35:10)

Subsequent to the year ending 31 March 1992, the shares of Brierley Investments and Fletcher Challenge were acquired, respectively, by the proprietors of the Taharoa C Block and the Tainui Maori Trust Board. Dr Mahuta gave evidence that these were not sold by private negotiation. (A35:10)

---

*Waitangi Tribunal, Department of Justice, Wellington.*

# Maori Development Corporation Report

## 4 - The MDC and Its Operations

### 4.4 - MDC Operations

#### 4.4 MDC Operations

From its first days the company launched into its activities as a "special bank". It provided a diverse range of financial services, including term finance; term loans, table loans, working capital finance, bridging loans, seasonal finance, plant and equipment finance, joint venture funding and investment financing.

In the first full year of operation it was successful in establishing its loan portfolio. Loans and advances increased from \$7.8 million to \$28.8 million (including \$3.0 million of loans committed but not delivered). As in the first eight months of operation, a profit was made and a dividend declared.

The year ending March 1990 was not a good year. Debts written off rose to \$2.190 million and provisions for doubtful debts to \$2.795 million. Profit slumped and no dividend was paid. (A2(b):20, 23-24) This situation forced a rethink of the company's roles and objectives and an external review by consultants was commissioned.

The company had no competitive advantages as regards its source of funds for on-lending and because of uncertainty, plans to put a Debenture Trust Deed in place and borrow from the public, were abandoned.

Concern was expressed by the executives representing the corporate shareholders that lending and involvement in the debt market was inappropriate. It was felt that a "packaging" role was more appropriate. It was also felt that the breadth of activities in which the corporation was involved was excessive and that there was need for a tight focus. (A37:39)

The board accepted many of the consultants' recommendations and the MDC decided to move its strategic direction away from an emphasis on lending to greater emphasis on financial restructuring, financial packaging and equity investment. (A2(b):9)

This change in policy was reflected in the new corporate mission published in the 1991 Annual Report:

Maori Development Corporation's mission is to operate a profitable business which invests and facilitates investment by Maori interests in projects which

provide satisfactory returns to itself and Maori investors. The Corporation also provides advice to Maori clients on a fee basis in the area of investment appraisal, project management and funding. (A2(b):3)

The change is also reflected in comparing the corporations's balance sheets (year ending 31 March) between 1988 and 1992:

\$ Millions

1988 1989 1990 1991 1992

Current Assets 0.6 1.7 2.4 3.4 5.1

Investments (mainly loans and advances) 7.8 25.1 32.8 24.6 18.2

Commercial bills and Government Stock 19.4 14.1 8.2 - -

Shares - - 0.5 5.4 8.3

Other 0.2 0.5 0.4 1.3 0.9

Total Assets 28.0 41.4 44.3 34.7 32.5

Current Liabilities 1.1 0.8 0.3 0.8 0.9

Term Liabilities 0.1 12.8 16.0 5.0 1.7

Shareholders' Funds 26.8 27.8 28.0 28.9 29.9

Total Liabilities and Shareholders' funds  
(A24:9-10) 28.0 41.4 44.3 34.7 32.5

The new Corporation policy, together with improved economic conditions and new packaging investment opportunities, resulted in the company's profitability improving.

The MDC is now a specialist financial organisation promoting the following activities:

- (a) Investment opportunities - identifying investment opportunities and marketing them to Maori investors.
- (b) Equity funding - taking an equity position with other Maori investors.
- (c) Advisory services - offering on a fee for service basis, advisory services and merchant banking type activities.

(d) Lending services - short to medium term loans to existing clients and new ones where a strategic advantage exists.

(e) Cash management services to Maori clients on a principal/agent relationship.  
(A2(c):5)

The MDC has investments in eight companies and has marketed investment opportunities to a wide range of Maori Trusts, Runanga and Incorporations.

The 1992 report sees a bright future for the company with a widening of the Maori commercial market. (A2(c):7)

---

*Waitangi Tribunal, Department of Justice, Wellington.*